

COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS.

SUPREME JUDICIAL COURT
FOR SUFFOLK COUNTY
NO. SJ-2000-0475

LINDA L. RUTHARDT, as she is
COMMISSIONER OF INSURANCE of the
COMMONWEALTH OF MASSACHUSETTS,

Plaintiff,

v.

LUMBER MUTUAL INSURANCE COMPANY,
SEACO INSURANCE COMPANY, and
NORTH AMERICAN LUMBER INSURANCE
COMPANY.

Defendants.

RECEIVER'S THIRD STATUS REPORT

I, Linda L. Ruthardt, Massachusetts Commissioner of Insurance, in my capacity as Receiver (the "Receiver") of Lumber Mutual Insurance Company, SEACO Insurance Company and North American Lumber Insurance Company (collectively, "Lumber"), hereby submit this Third Status Report concerning the rehabilitation of Lumber. This report supplements and updates the information contained in my Second Status Report filed with the Court on June 25, 2001.

1. September 30, 2001 Financial Results: Lumber's net income for the nine months which ended September 30, 2001 was consistent with the 2001 Plan. After applying investment income earned for the period and distributions from subsidiaries,

Lumber's surplus (net worth) at September 30, 2001 was \$11,582,708, which reflects an increase of over \$650,000 since December 31, 2000 and is slightly higher than projected by the 2001 Plan. Year to date operating expenses are lower than the budgeted amounts included in the 2001 Plan.

2. Status of Claim and Expense Payments: All payments to Lumber's policyholders and its other creditors are continuing to be made in the normal course, in accordance with the Receivership Order. As of September 30, 2001 there were pending claims related to approximately 3,000 incidents under Lumber's policies of insurance. A significant percentage of the pending claims are workers' compensation claims, a number of which should be expected to remain open for a substantial period of time. My actuarial consultants at Tillinghast had projected, based on their 2000 loss reserve analysis, quarterly loss payments and loss reserves for 2001. Losses incurred during the first three quarters of 2001, net of reinsurance recoverables, were consistent with Tillinghast's projections for that period.

3. Investments: The investment strategy is to hold predominately highly rated liquid assets. As of September 30, 2001, 99% of unaffiliated invested assets were held in bonds, money market funds and short term instruments. For the first nine months of 2001, investment income was approximately \$7,500,000, which was consistent with the 2001 Plan.

4. Status of Premium Collections: Lumber is continuing to calculate, bill and collect earned premium attributable to its policies of insurance, which were canceled effective as of January 1, 2001. Audits of policyholders' payroll records resulted in approximately \$5,600,000 of additional premium and \$2,900,000 of premium refunds during 2001. For the first nine months of 2001, earned premium of approximately \$8,300,000 was collected. Lumber is utilizing both staff members and outside collection agencies in its efforts to collect all outstanding earned premium.

5. Staffing: As of November 30, 2001, the total staff count at Lumber was 71, reduced from 200 at January 1, 2001. Based upon current projections, the staff will be further reduced to 57 by January 31, 2002, and to 44 by December 31, 2002.

6. Conclusion: Tillinghast is presently conducting its preliminary review of 2001 loss information and I expect to shortly receive their report. Ernst & Young have been engaged to

audit Lumber's 2001 financial statements. In my next report, which will cover the period through December 31, 2001, I will summarize Tillinghast's and Ernst & Young's reports, review results for 2001 and present the 2002 Plan.

Financial results for the first nine months of 2001 are consistent with the 2001 Plan. In addition, losses incurred were consistent with Tillinghast's projections for the first three quarters of 2001. I therefore believe that, although its financial condition is impaired, Lumber is not insolvent and that it is appropriate for Lumber to continue to meet all of its obligations in the normal course. I will continue to closely monitor Lumber's operating results as compared to the 2001 Plan, and will report further to the Court once year end results are available.

Respectfully submitted,

Linda L. Ruthardt
Receiver

Dated: December __, 2001